TENNESSEE FILES $92 MILLION MULTISTATE AGREEMENT RESOLVING ALLEGED ANTICOMPETITIVE MUNICIPAL BOND DERIVATIVES SCHEME

Tennessee Attorney General Bob Cooper and 24 other state attorneys general announced a $92 million agreement with JP Morgan Chase & Co. (JPMC) as part of an ongoing nationwide investigation of alleged anticompetitive and fraudulent conduct in the municipal bond derivatives industry.

As part of the multistate agreement, JPMC has agreed to pay $65.5 million in restitution to affected state agencies, municipalities, school districts and not-for-profit entities nationwide that entered into municipal derivative contracts with JPMC between 2001 and 2005. In addition, JPMC agreed to pay a $3.5 million civil penalty and $6 million in fees and costs of the investigation to the participating states. It has not yet been determined how much Tennessee and the other states will receive from the agreement.

Municipal bond derivatives are contracts that tax-exempt issuers use to reinvest proceeds of bond sales until the funds are needed. They may also be used to avoid fluctuating interest rates. In April 2008, the state working group began investigating allegations that some large financial institutions, including national banks and insurance companies, and brokers, engaged in various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the municipal bond derivatives market.

The ongoing investigation revealed some JPMC employees colluded with other financial institutions and brokers with whom they had working relationships to secure an unfair advantage over other firms. The defendants are alleged to have rigged bids by submitting non-competitive courtesy bids and submitting fraudulent certifications of compliance to government agencies in addition to other violations of U.S. Treasury regulations.

“Regardless of the means used to carry out the various schemes, the objective was to enrich the financial institution and/or the broker at the expense of the issuer,” Attorney General Cooper said. “Ultimately taxpayers pay a higher price because such wrongful conduct circumvents a competitive, transparent marketplace. As a result, state, city, local and not-for-profit entities entered into municipal derivatives contracts on less advantageous terms than they would have otherwise.”

The state settlement also provides that JPMC will pay $17 million in restitution directly to certain other government and not-for-profit entities as part of separate agreements it
entered into today with the U.S. Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC).

The state, SEC and OCC settlements are distinct components of a coordinated global $228 million settlement that JPMC entered into today. JPMC also reached agreement with the U.S. Department of Justice’s Antitrust Division, the Internal Revenue Service and the Federal Reserve Board. JPMC is the third financial institution to settle with a multistate working group in the ongoing municipal bond derivatives investigation following Bank of America and UBS AG. To date, the state working group has obtained agreements worth close to $250 million.